



Health Budgets &
Financial Policy



TRICARE Budgeting



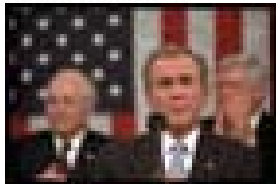
Health Budgets &
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Overview



- Organizational Overview
- DHP PPBS Process
- FY 2003 Initiatives
- Trends
- Future Initiatives/Focus
- Calendar of Events
- Summary





OSD



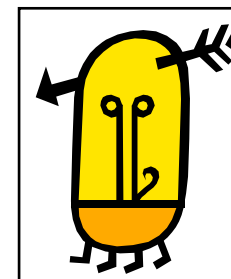
OSD P&R



ASD(HA)

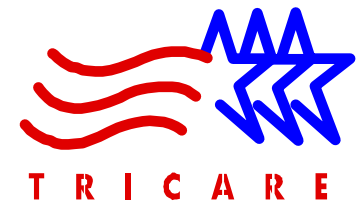


DASD
(HBF&P)



PB&E

Organization





Health Budgets &
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Office of the Chief Financial Officer



Mr. Nelson Ford
Chief Financial Officer

Program, Budget & Execution Division

COL David Moonan, MSC, USA, Dir
Mr. Mark Yow

Operations Office

Mr. Ramon Jimenez, Lead
Lt Col Ronald Henke, USAF, MSC
Ms. Gerri Anthony de-Heer
Ms. Veronica Blair
Ms. Valerie McBee
Mr. Bill Curley
Mr. Dave Hofflinger

Control Office

Ms. Martha Taft, Lead
Lt Col David Mistrretta, USAF, MSC
LTC Andrew Storey, MS, USA
LCDR Steven Loberg, MSC, USN
Ms. Nancy Zimmerman
Ms. Becky Johnson
Mr. Jack Thornburg
Ms. Shirley Doyle

Medical Facilities Life Cycle Management Division

COL Thomas Kimmel, MSC, USA, Dir

Defense Medical Facilities Office

Mr. Surinder Sharma, Chief
Ms. Judi Naugle
Mr. Alexander Miravite
Mr. John Gouty
Ms. Constance Kinnick
Mr. Allen Bein

Medical Military Construction Operations Office

Ms. Debra Jones, Chief
Ms. Joyce Webb
Ms. Veronica Tillman

Clinical Planning & Integration Office

DHP Management Control & Financial Studies Division

Mr. Dave Fisher, Dir
Mr. Gunther Zimmerman
Mr. Patrick Wesley
LCDR Anthony Chavez, MSC, USN
Mr. Glenn Willauer
Maj Joann Kelsch, USAF, NC
Mr. Robert Moss
Mr. Eric Machi

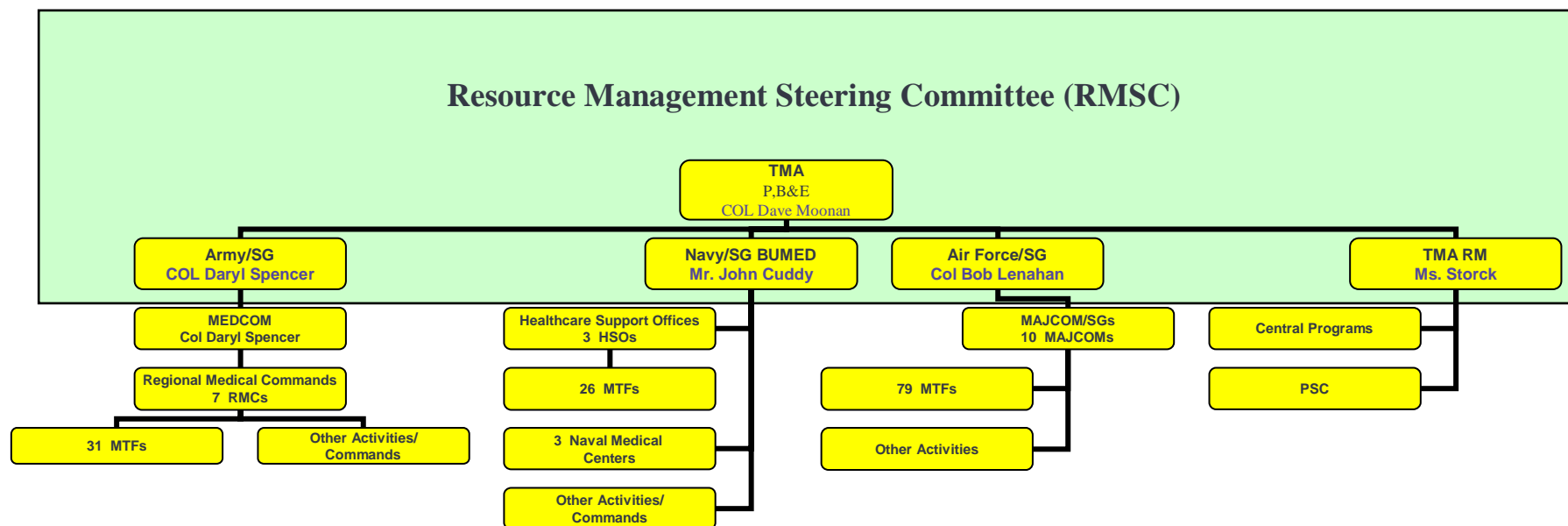
Program Integrity Office

Ms. Rose M. Sabo, Chief
Ms. Cindy A. Gonsalves
Ms. Barbara-Jeane Jannotti
Mr. Jose L. Lozoya
Ms. Judy K. Russell
Mr. John E. Shager
Mr. Dan Johnson
Mr. Bill Harlin
Ms. Cindy Rozalski



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DHP Budget & Management Structure





The DHP Planning, Programming & Budgeting System (PPBS) Process

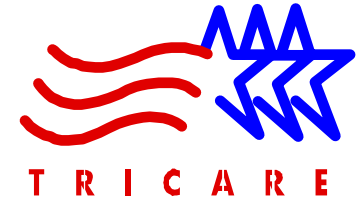


“It’s All Greek to Me...”



The DHP PPBS Process

What is involved?



- Program Element, and Object Class (commodity) level Financial Requirements at facility level
- Tri-Service bottom-up requirements review
- Workload projections...consistent with financial requirements being requested...predictor of Private Sector Care requirement changes
 - ◆ Current measures: Visits...Dispositions...Scripts
 - ◆ Future measures TBD: RVUs...APGs...RWPs?



The DHP PPBS Process

Why do I care?



- Requirements have been developed primarily at Service SG/RM & TMA levels...execution +/- one-times, plus inflation
- Administration forcing involvement at a lower level
 - ◆ FY 03 Execution...Plan vs Actual
 - ◆ FY 04 Business Plans
 - ◆ FY 05 Increased Regional Manager Responsibility/ Accountability
 - ◆ FY 05-09 Program, Budget and Execution review
 - ◆ FY 06-11 POM/BES...Requirements validation, possible re-baseline of funds
- Requirement validation expected to be more stringent



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The DHP PPBS Process



FY 2003

FY 05-09 Program Change Proposal

PSC Shortfall \$11.6B

Proposed offsets \$5B

Net Shortfall \$6.6B

FY 2003

FY 05-06 Budget Change Proposals

Combined into a Single Submission

FY 2004

FY 06-11 POM

Air Force Programmatic Review

DHP Review of Svc. Requirements

TRICARE Regional Offices (TRO)

Resource Sharing

FY 2004

Budget Estimate

Submission (BES)

FY 06-07



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Combined into a Single Submission

The DHP PPBS Process



Program Objective Memorandum (POM) FY 06-11

Six Year Resource Programming

- Developed every two years (on the even year, off years will focus on budget execution and program performance per MID 913)
- Decisions documented by the Program Decision Memorandum (PDM)

Budget Estimate Submission (BES) FY 06-07

Two Year Budget

- Biennial in name, developed with the POM
- ⇕ Decisions documented by Program Budget Decisions (PBDs)



The DHP PPBS Process



President's Budget Submission (PB)

One Year Budget

- Developed every year
- ⇕ Modified by Congressional Changes (Marks)

Congressional Authorization & Appropriation

One Year Budget

- Specific Guidance (General Provision & Committee Language)

Office of Management & Budget (OMB) Apportionment

One Year Budget

- Specific Quarterly & Annual Budget Authority Limits



Appropriation Overview

(\$ in thousands)



	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 02/03 % Change</u>	<u>FY 03/04 % Change</u>
<i>Operation & Maintenance*</i>	\$16,738,713	\$14,053,023	\$14,876,887	-16.0%	5.9%
Procurement*	\$330,415	\$283,397	\$327,826	-14.2%	15.7%
RDT&E*	\$553,909	\$457,152	\$65,796	-17.5%	-85.6%
<i>Military Personnel</i>	\$5,860,894	\$6,171,595	\$6,813,431	5.3%	10.4%
MILCON	<u>\$223,679</u>	<u>\$167,741</u>	<u>\$180,315</u>	<u>-25.0%</u>	<u>7.5%</u>
Total	\$23,707,610	\$21,132,908	\$22,264,255	-10.9%	5.4%
<i>Medicare Eligible Accrual Fund Actuarial Estimate</i>		\$4,445,000	\$4,765,000	0.0%	7.2%
<i>Military Personnel Appropriation</i>		\$422,794	\$437,331	0.0%	3.4%
<i>DHP O&M Appropriation</i>		\$4,022,206	\$4,327,669	0.0%	7.6%
Total Budget Authority	\$23,707,610	\$25,577,908	\$27,029,255	7.9%	5.7%

*FY 04 President's Budget Submission (PB)



Operation & Maintenance

Price & Program (FY 03 – FY 04)
(\$ in thousands)



	<u>FY 2003</u>	<u>Price Growth</u>	<u>Program Change</u>	<u>FY 2004</u>	<u>Composite Rate</u>	<u>% Total Program</u>
In-House Care	\$3,861,726	\$213,296	\$25,336	\$4,105,010	5.52%	27.59%
Private Sector Care	\$6,893,091	\$486,661	\$41,220	\$7,420,971	7.06%	49.88%
Consolidated Health Support	\$844,416	\$16,556	\$28	\$862,391	1.96%	5.80%
Information Management	\$738,532	\$11,860	-\$29,310	\$721,083	1.61%	4.85%
Management Activities	\$246,407	\$4,600	-\$11,548	\$239,459	1.87%	1.61%
Education & Training	\$384,339	\$11,439	-\$10,461	\$385,317	2.98%	2.59%
Base Operations	<u>\$1,084,512</u>	<u>\$15,405</u>	<u>\$41,069</u>	<u>\$1,142,655</u>	<u>1.42%</u>	<u>7.68%</u>
Total	\$14,053,023	\$759,818	\$56,333	\$14,876,886	5.41%	100.00%



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FY 2003 Congressional Actions

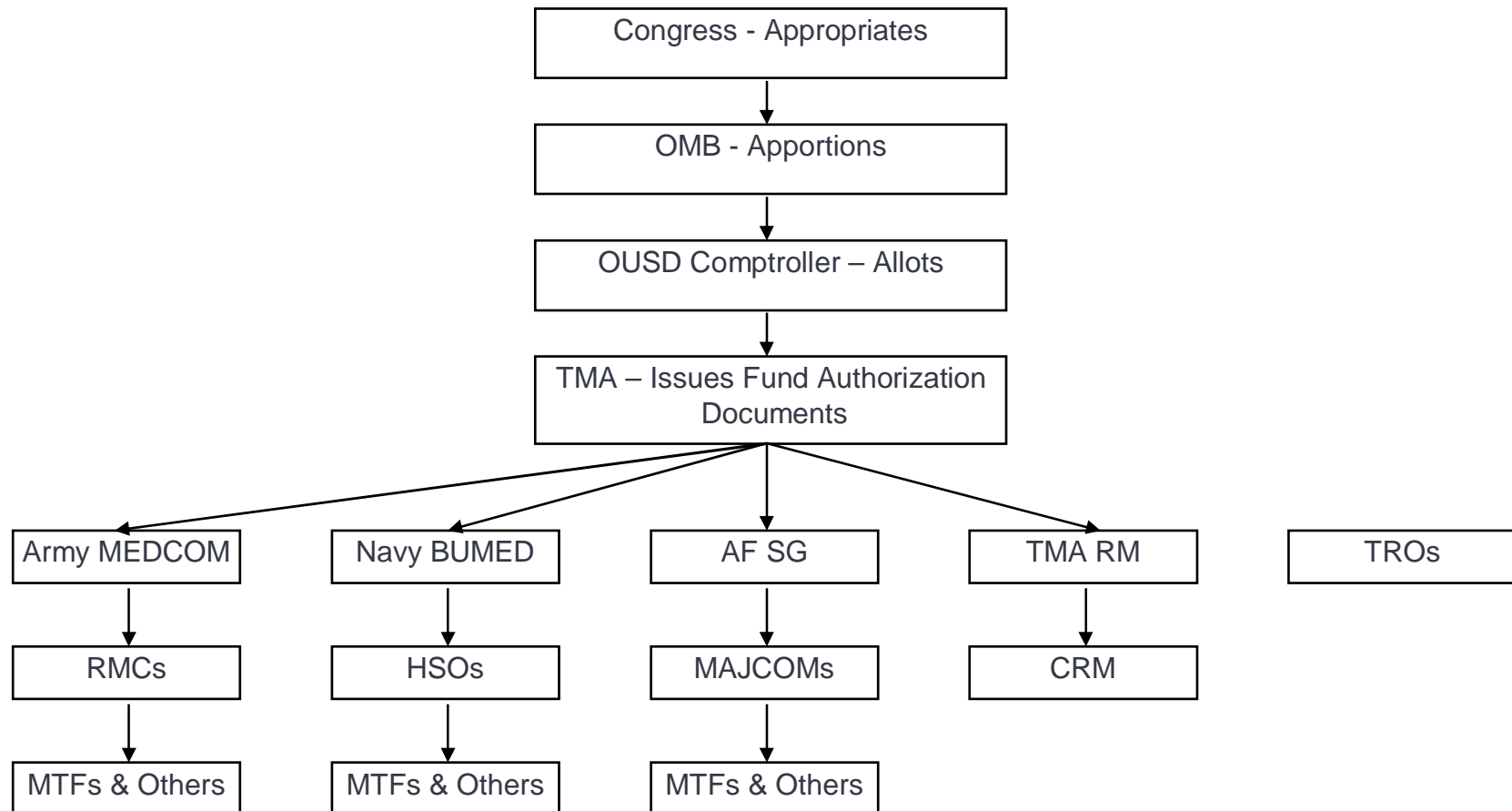


- Additions
 - ◆ O&M \$52.345M
 - ◆ Procurement \$5.500M
 - ◆ RDT&E \$391.700M
- Reductions
 - ◆ O&M (\$227.892M)
 - ◆ Procurement (\$1.363M)
 - ◆ RDT&E (\$0.845M)
- “Carve out”
 - ◆ Center for Disaster and Humanitarian Assistance Medicine (\$0.960M)



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Organization – Funds Flow





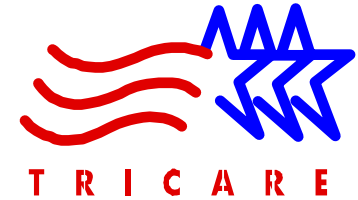
FY 2003 Initiatives



- Accrual Fund
- Global War on Terrorism (GWOT)



DoD Medicare Eligible Retiree Health Care Fund



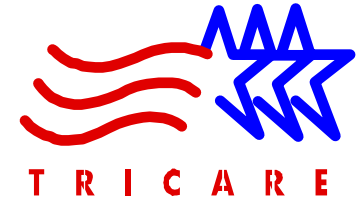
- Established by Congress to provide mandatory funding for a health care entitlement
- Covers certain Medicare-eligible DoD beneficiaries (military retirees, retiree family members and survivors - not simply “over-65s”)
- Pays for MTF care, purchased care and pharmacy
- Recognizes DoD’s accrued and future liability for cost of retiree/survivor health care for military service members and their family members

Implemented 1 October 2002 (FY03)



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What to Monitor at MTFs



- Workload for eligible beneficiaries as compared to LOE base year (FY00) - want to maximize, but don't want to displace other beneficiaries and create MCS contract Bid Price Adjustment (BPA) bill
- SIDR/SADR completion (accuracy, timeliness) appropriate coding drives RWP/APG weight
- MEPRS completion (accuracy, timeliness) - used to set MTF-specific rates (RWPs, APG weights, pharmacy non-ingredient cost)



Global War on Terrorism



- Operations:
 - ◆ Noble Eagle, Enduring Freedom, Iraqi Freedom
- Appropriated DHP funding for FY 03 - \$596.8 M
- Obligations thru Aug 03 - \$622 M
- Est. thru end of FY 03 – \$695 M
- Activated Guard & Reserve personnel: 163,000 as of 1 Oct 03

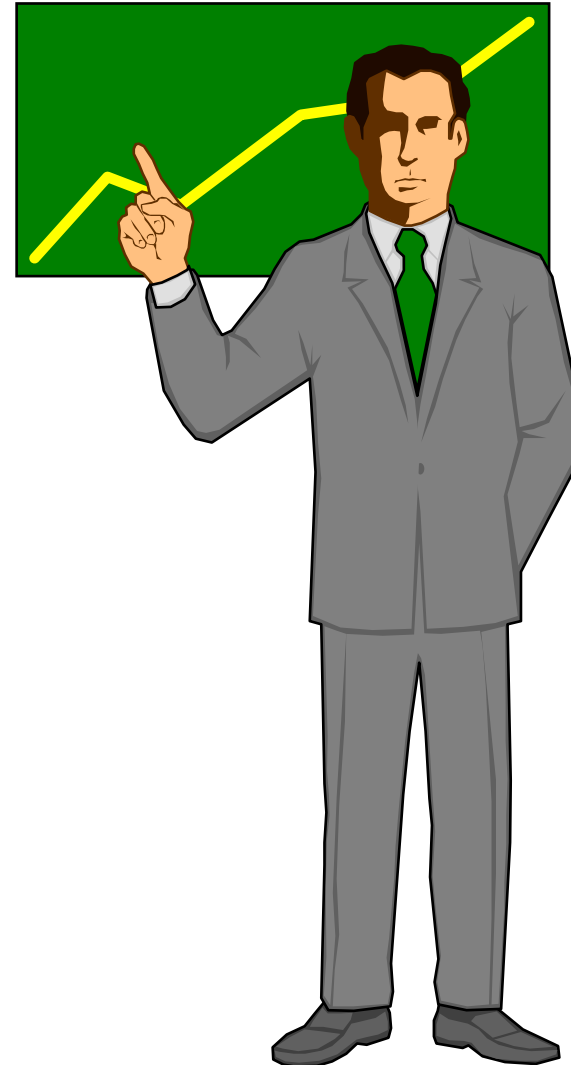


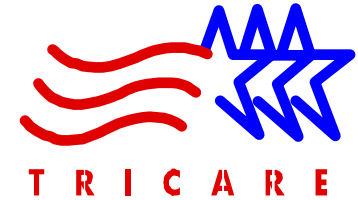
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Trends



- National
- DHP





National Trends

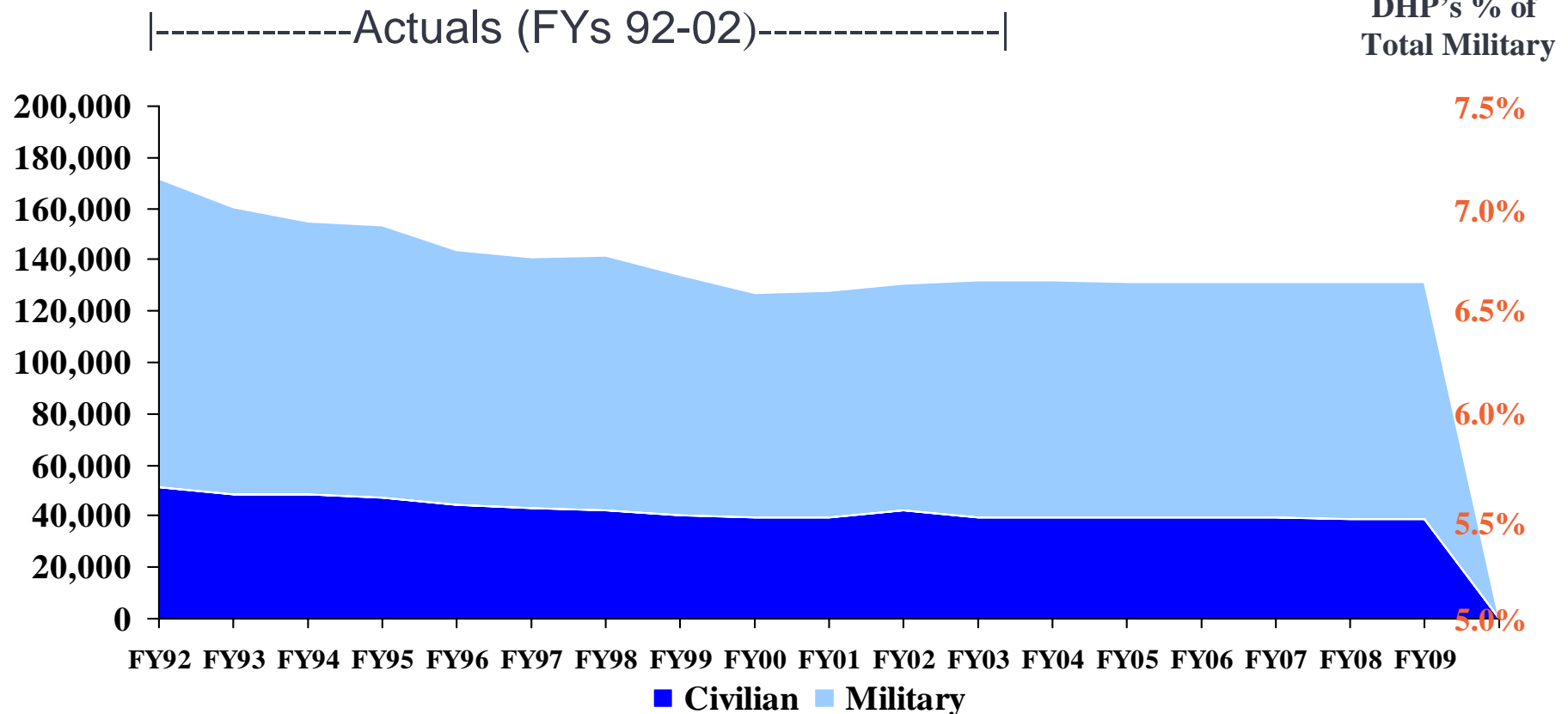
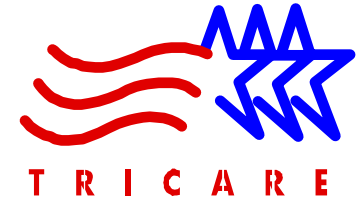
- CMS predicts 7.3% annual growth in healthcare costs through 2011
- Healthcare 14.1% of GDP in 2001*...17% by 2011
- Pharmacy to increase 15% Plus...Trend from 1999 to 2001 from 19.7% to 15.7%*

* New York Times 8 Jan 03



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DHP* FYs 92 through 09 Civilian & Military Endstrength



*The DHP came into existence in FY 93 — FY 92 is the Services' equivalent of the DHP.

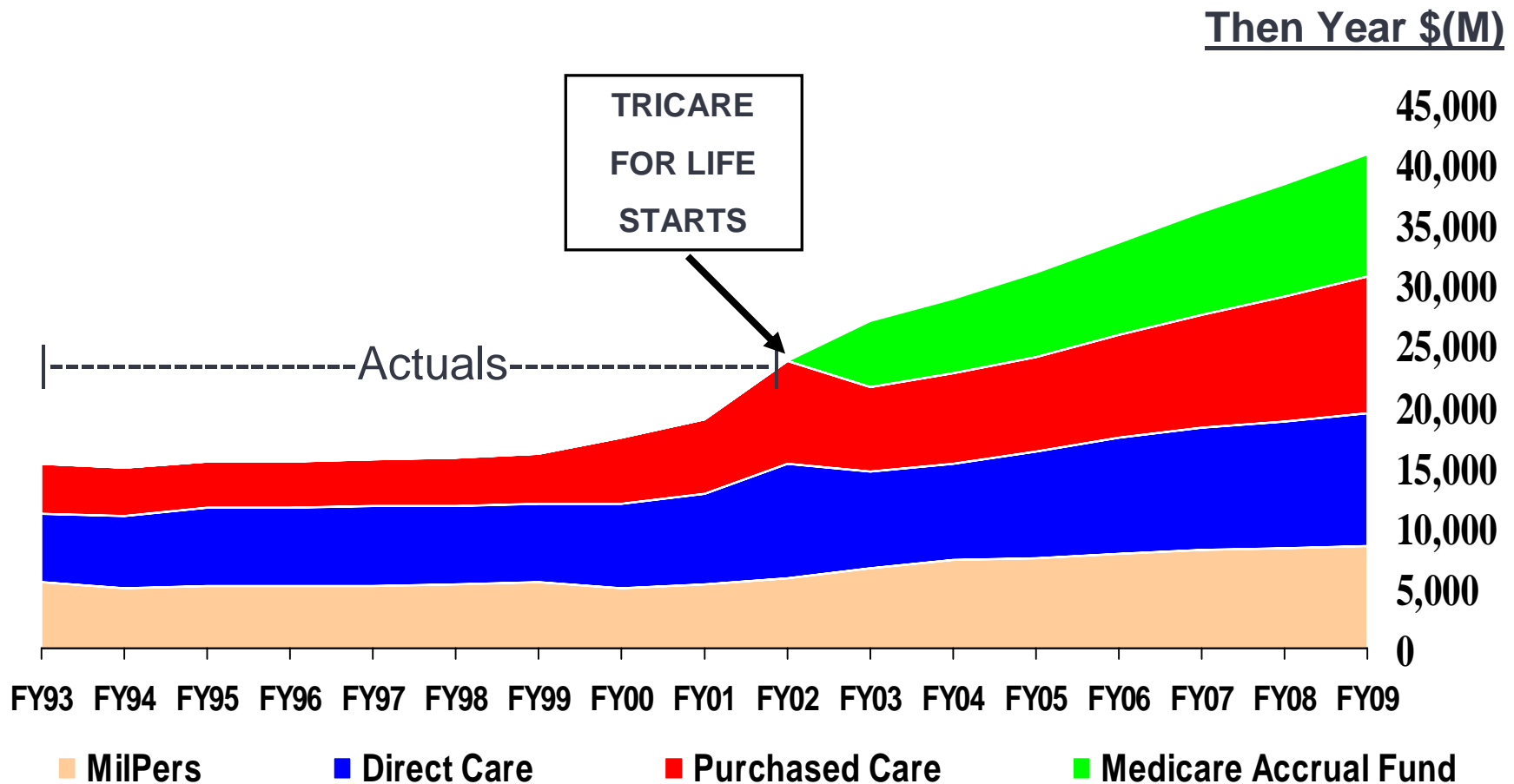
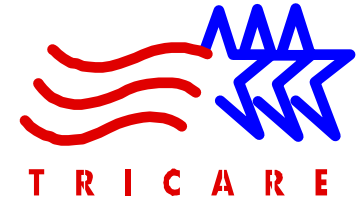
FYs 02-09 source: PB04 FYDP



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DHP FY93 - FY09

Total Obligation Authority (TOA)

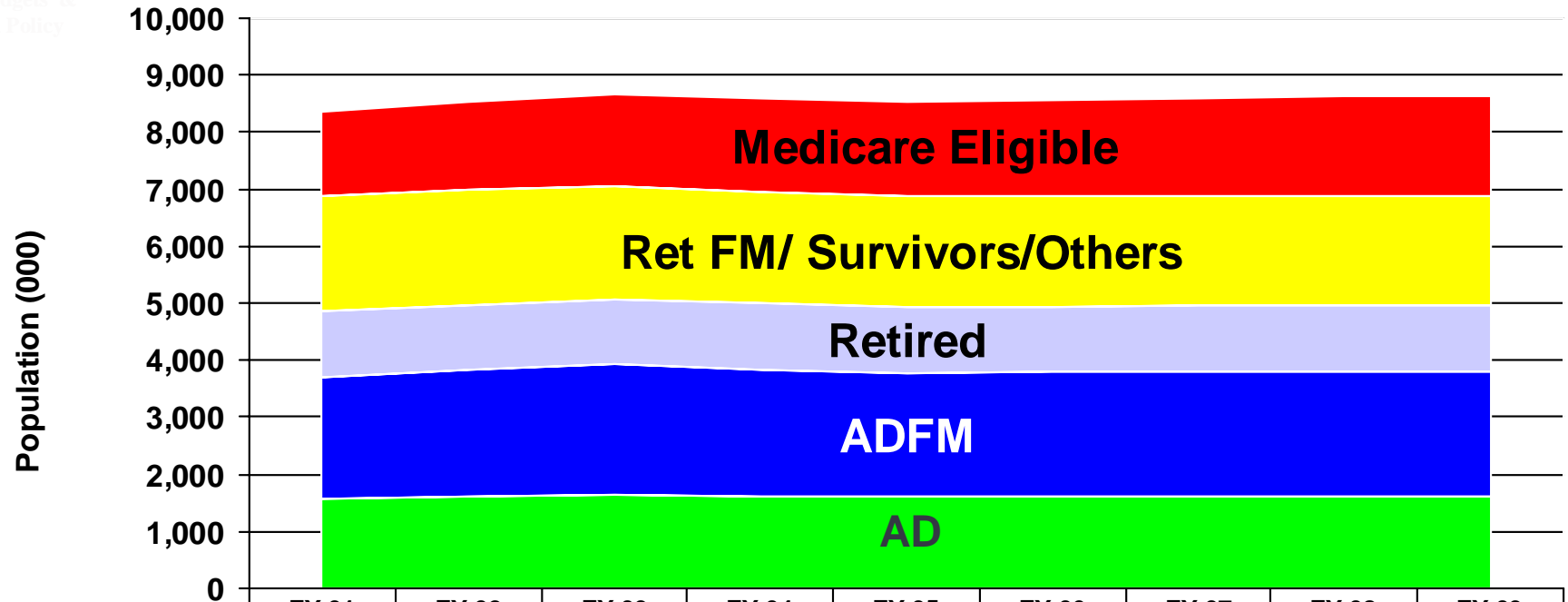


Data as of 09-23-03 - TOA includes: O&M, RDT&E, Procurement, MILCON, MILPERS



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MHS FY AVERAGE ELIGIBLE POPULATION FY 2001 – FY 2009 (000) – Baseline Population as of FY 2001

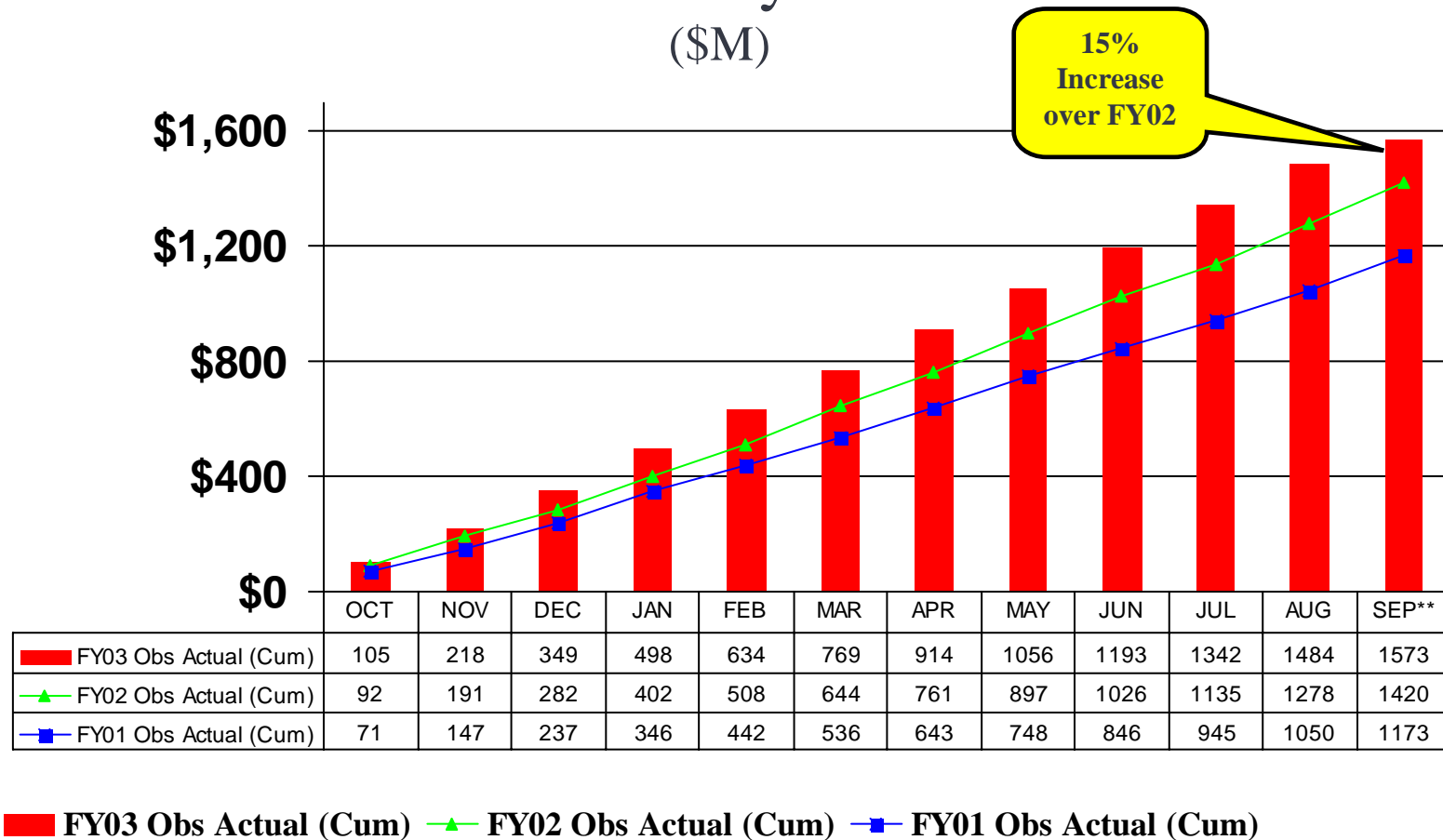


	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
■ Medicare Eligible	1,477	1,546	1,586	1,627	1,658	1,684	1,710	1,737	1,760
■ Ret FM/ Survivors/others	2,020	2,007	1,991	1,980	1,969	1,958	1,946	1,929	1,908
■ Retired	1,164	1,146	1,138	1,137	1140	1,145	1,152	1,155	1,156
■ ADFM	2,151	2,215	2,282	2,230	2,183	2,190	2,197	2,200	2,200
■ AD	1,559	1,609	1,653	1,621	1,593	1,600	1,604	1,607	1,607

Source: MCFAS 2001.0 v2.07



Defense Health Program In House Care Pharmacy Obs (\$M)

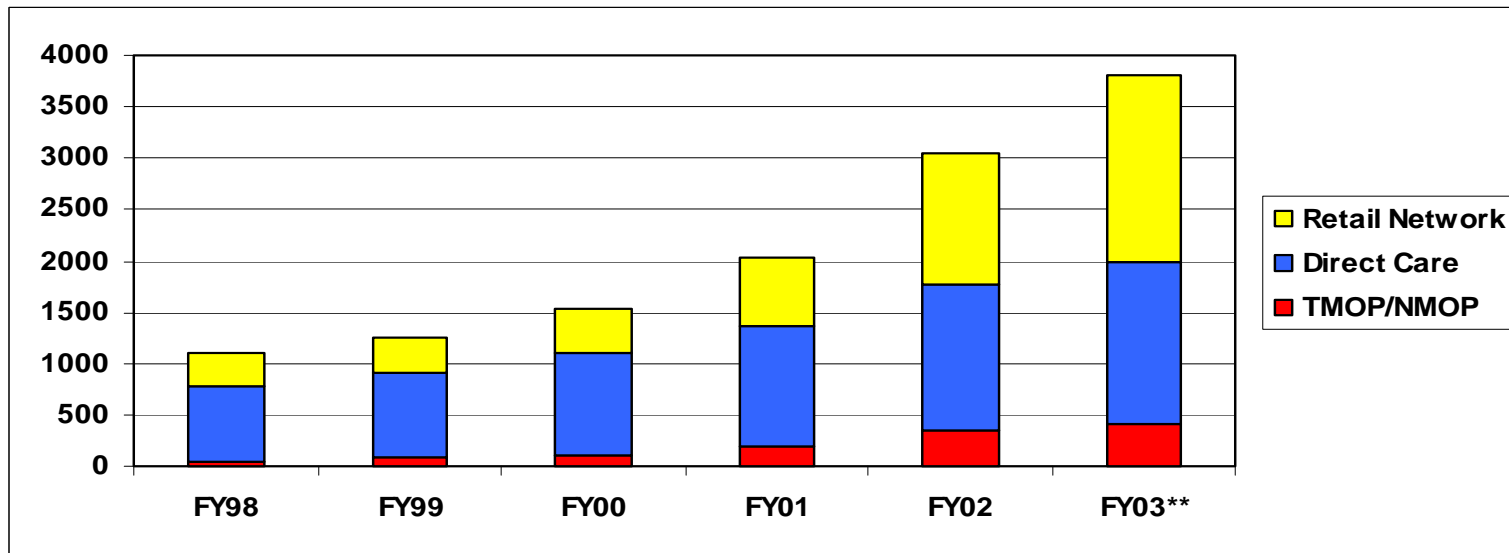


Source: DHPADB (Direct Obs)

**Sep 03 data is yet to be finalized



Defense Health Program Pharmacy Historical Cost (\$M)



	FY98	FY99	FY00	FY01	FY02	FY03**
Retail Network	312	363	442	679	1,278	1827
Direct Care	744	818	976	1,173	1,420	1573
TMOP/NMOP	36	83	116	188	347	413
Total	1,092	1,264	1,534	2,040	3,045	3,813

****FY03 data yet to be finalized**

Note: Direct Care are actual direct obligations only (source:DHPRDB).

Retail Network and NMOP include drug cost + dispensing fee and exclude patient co-pays (source:M2)

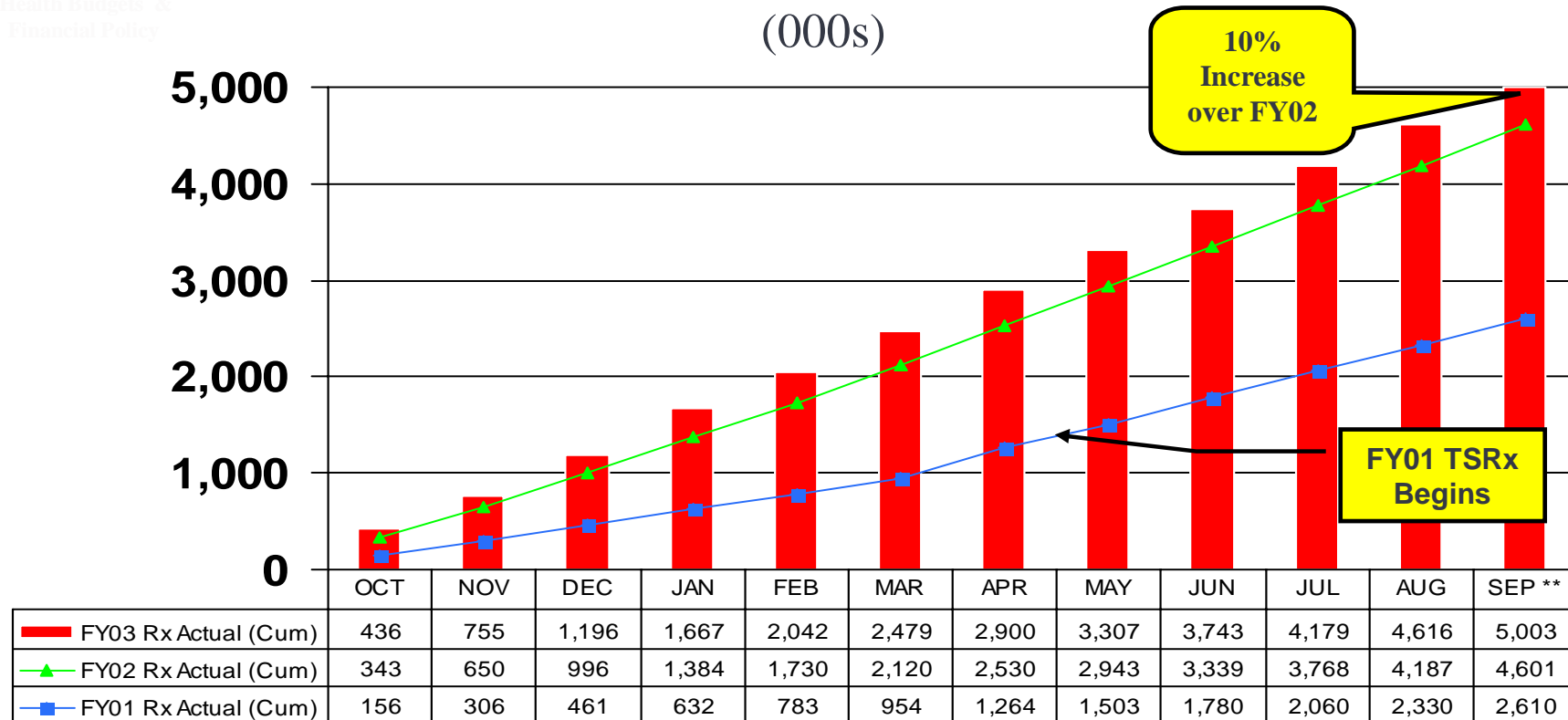


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Defense Health Program

Private Sector Care

Number of TMOP/NMOP Scripts (000s)



FY03 Rx Actual (Cum) **FY02 Rx Actual (Cum)** **FY01 Rx Actual (Cum)**

Source: PDTs (M2)

**Sep 03 data is yet to be finalized



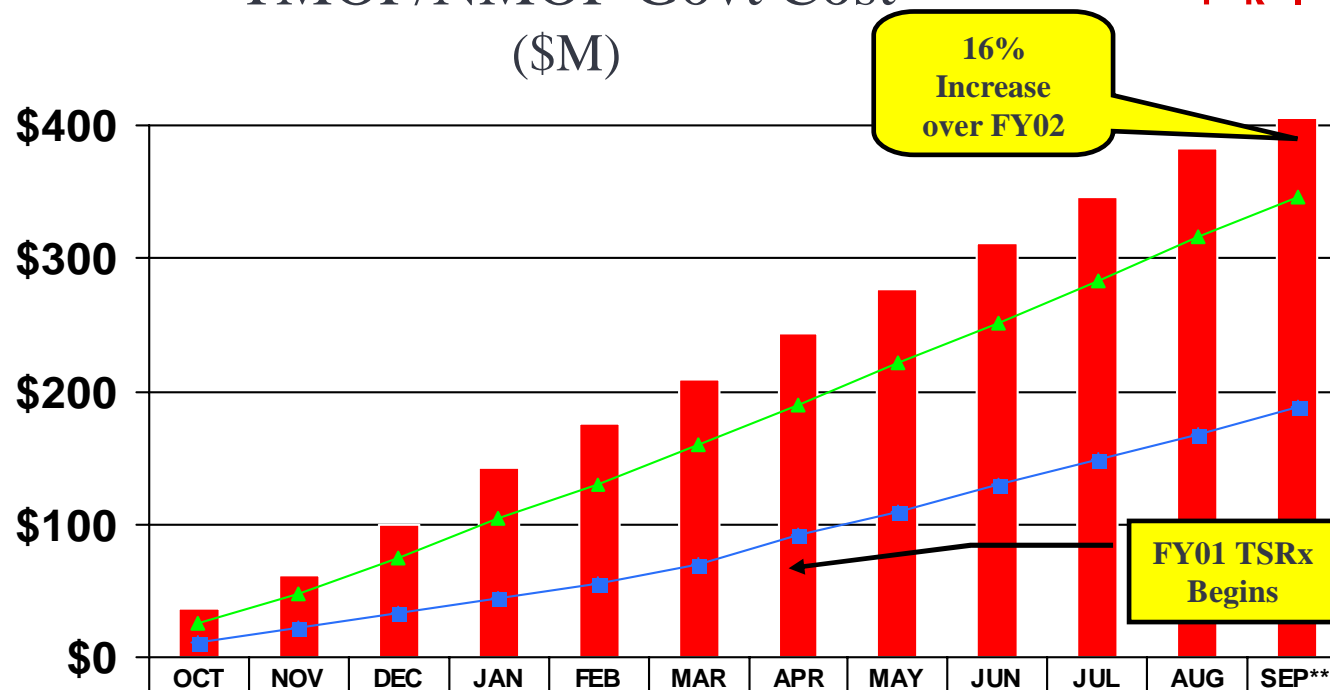
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Defense Health Program

Private Sector Care

TMOP/NMOP Govt Cost

(\$M)



	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP**
■ FY03 Amount Paid Actual (Cum)	36	62	99	143	175	209	243	276	311	346	382	413
▲ FY02 Amount Paid Actual (Cum)	25	48	74	104	130	159	190	221	251	283	316	347
■ FY01 Amount Paid Actual (Cum)	11	22	33	45	56	69	92	109	129	149	168	188

■ FY03 Amount Paid Actual (Cum)
■ FY01 Amount Paid Actual (Cum)

▲ FY02 Amount Paid Actual (Cum)

Source: PDTs (M2)

**Sep 03 data is yet to be finalized

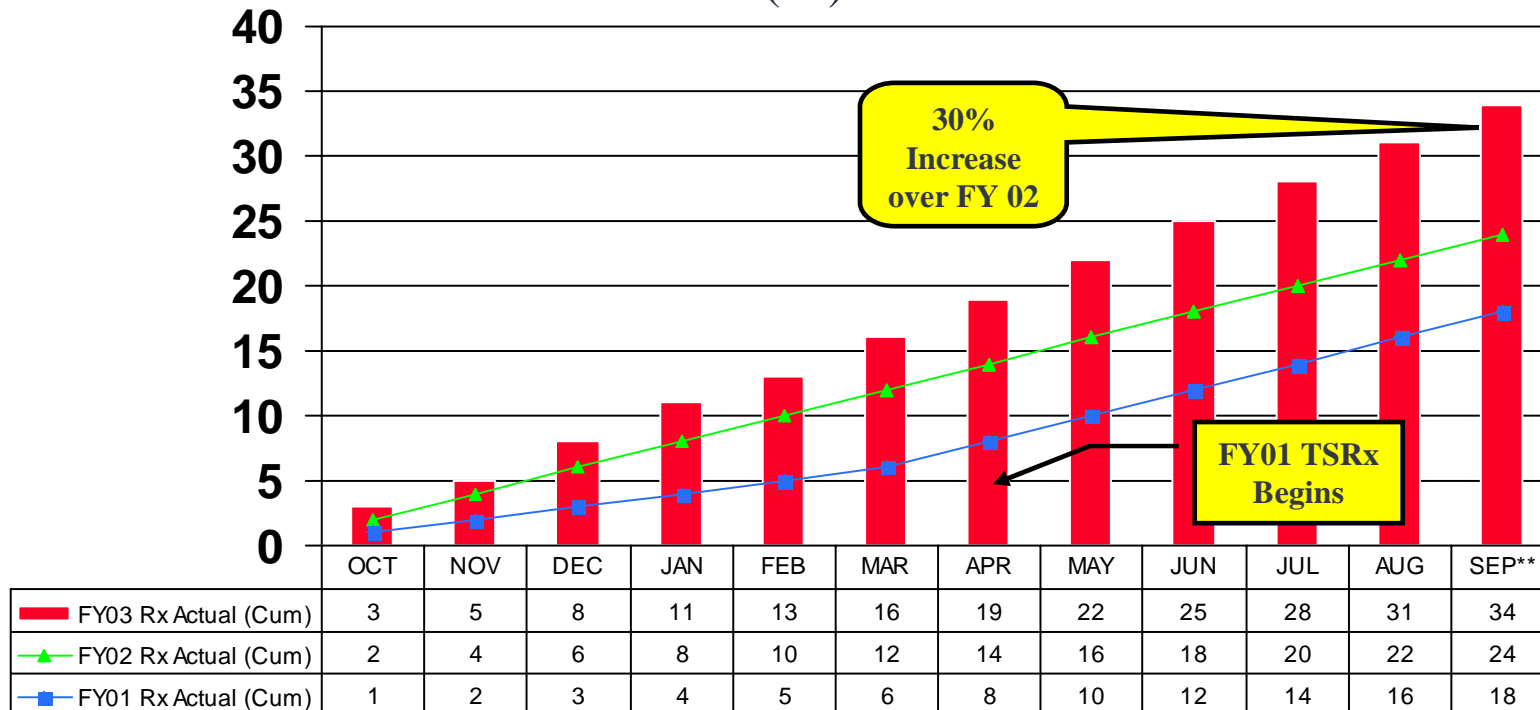


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Defense Health Program

Private Sector Care

Number of Retail Pharmacy Scripts (M)



■ FY03 Rx Actual (Cum) ▲ FY02 Rx Actual (Cum) ■ FY01 Rx Actual (Cum)

Source: PDTs (M2)

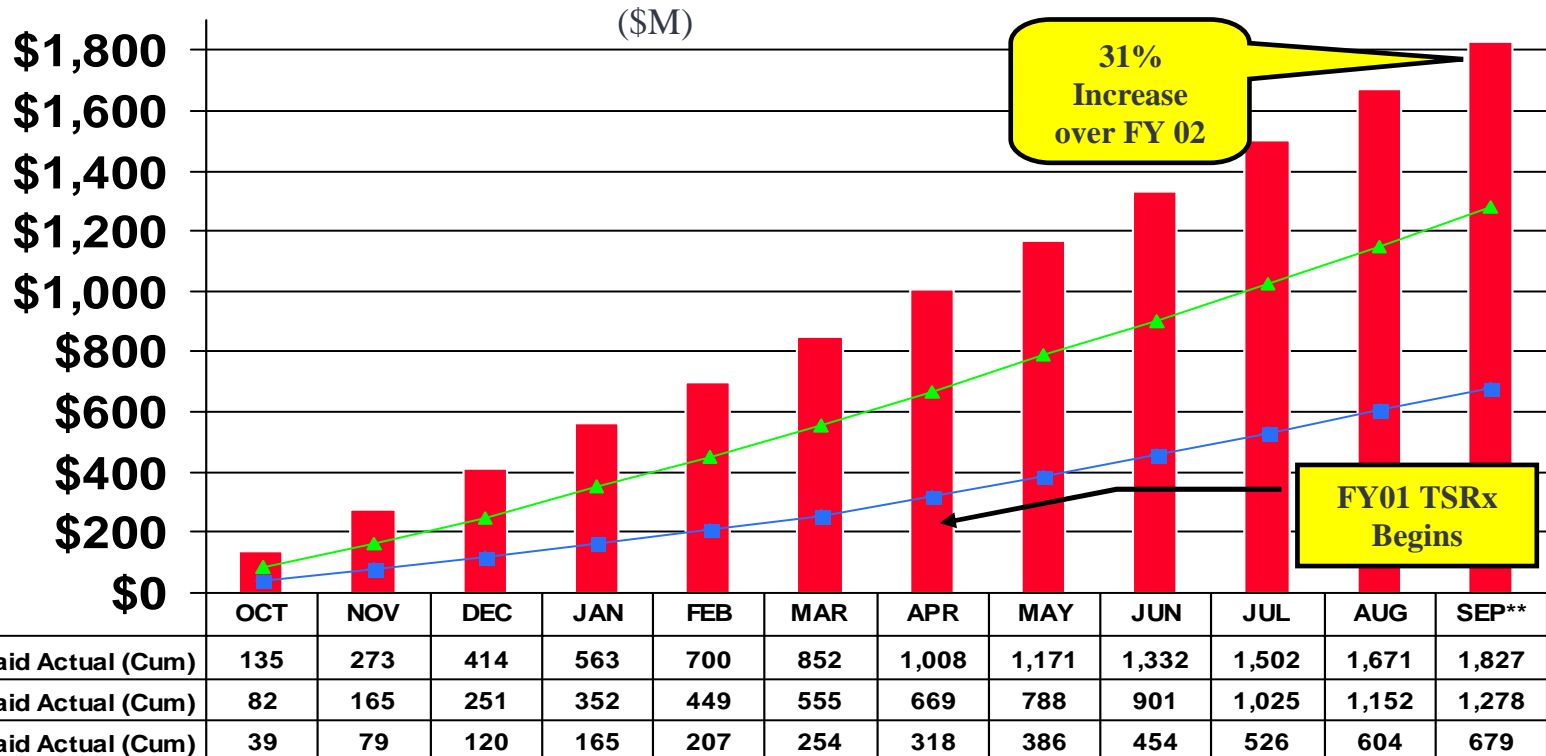
**Sep 03 data is yet to be finalized



Defense Health Program

Private Sector Care

Retail Govt Cost



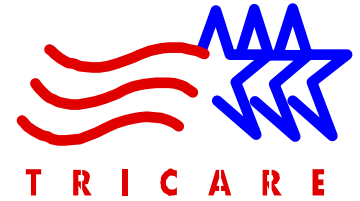
■ **FY03 Amount Paid Actual (Cum)**
▲ **FY02 Amount Paid Actual (Cum)**
■ **FY01 Amount Paid Actual (Cum)**

Source: PDTs (M2)

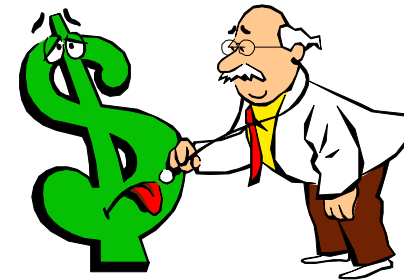
**Sep 03 data is yet to be finalized



Resource Opportunities



- Optimization Projects/AMP
- VA/DoD Joint Initiatives
- SBIR (RDT&E)
- Maximizing Current Operating Funds





Surgeon General Initiatives (Optimization Projects)

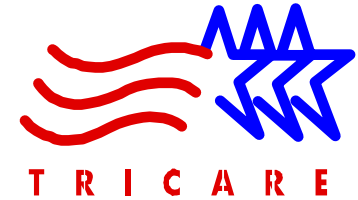


Congressional designation of \$150M (in no-year DHP O&M) in the FY01 Emergency Supplemental Appropriations Act in response to request for funds to invest in MTFs to recapture private sector workload and to invest in new technologies

- \$90M (\$30M per Service) designated for optimization projects, either self-financing in three years or for “critical medical need”
- \$30M (\$10M per Service) designated for advances in medical practice (AMP)



FY 2002 Surgeon General Initiatives (Optimization Projects)



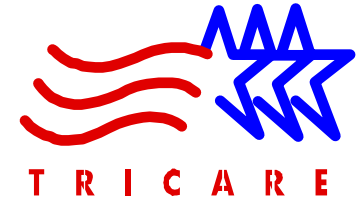
113 FY02 projects funded at \$179M:

- 35 self-financing optimization projects funded at \$39M with estimated savings of \$127M
- 60 “critical medical need” projects funded at \$115M
- 18 advances in medical practice projects funded at \$25M

Note: Includes both FY 2001 no-year and FY 2002 one-year funding; excludes costs of out-year tails. Status as of mid-year review July 17, 2003



FY 2003 Surgeon General Initiatives (Optimization Projects)



19 new projects funded at \$107M:

- 4 self-financing optimization projects funded at \$1.5M with estimated savings of \$2.7M
- 10 “critical medical need” projects funded at \$70M
- 5 advances in medical practice projects funded at \$35.5M

38 Projects Continued from FY02 or approved in FY02 to start in FY03 funded at \$69.1M

Note: Includes both FY 2001 no-year and FY 2003 one-year funding; excludes costs of out-year tails. Status as of mid-year review July 17, 2003.



Your Bank Account...Current Year Obligations



- Maximizing MTF Fund Utilization
 - ◆ Best Practices
 - ➔ Frequent Review/Reconciliation
 - ➔ Minimize use of MIPRs...on the Edge...
 - ➔ Clinic Involvement In Close Out Reviews
 - ➔ Posture for Year End with Solid Contract Estimates and Vehicles
 - ➔ Immediate Actions Based on Frequent Reviews



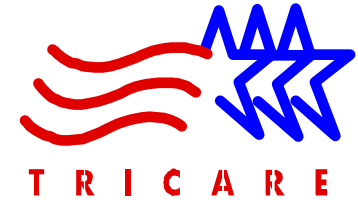
Future Initiatives/Focus



- Military Personnel Account - Reimbursed by DHP?
- Invigorated VA - DOD Collaboration
- CMS - DOD Collaboration
- TMOP --TNEX
- PSC - Contract Price Assumptions
- DOD Financial Management Modernization



Future Initiatives Military Personnel Account Reimbursed by DHP?

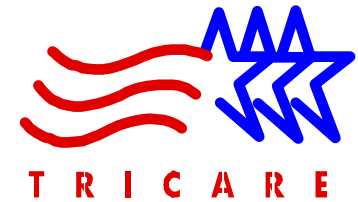


- PDM I (Dec 01) Directs Plan To Make DHP MilPers Reimbursable
 - ◆ Reimbursement in Year of Execution
 - ◆ Defense Working Capital Fund
- Concerns & Considerations
 - ◆ Recruiting To Endstrength
 - ◆ Pay For Borrowed Military Manpower?
 - ◆ Accounting for Temporary Deployments
 - ◆ Rates...Composite, Civilian Equivalency, DHP Specific, Actual, Three-Year Fill Rate Average...?

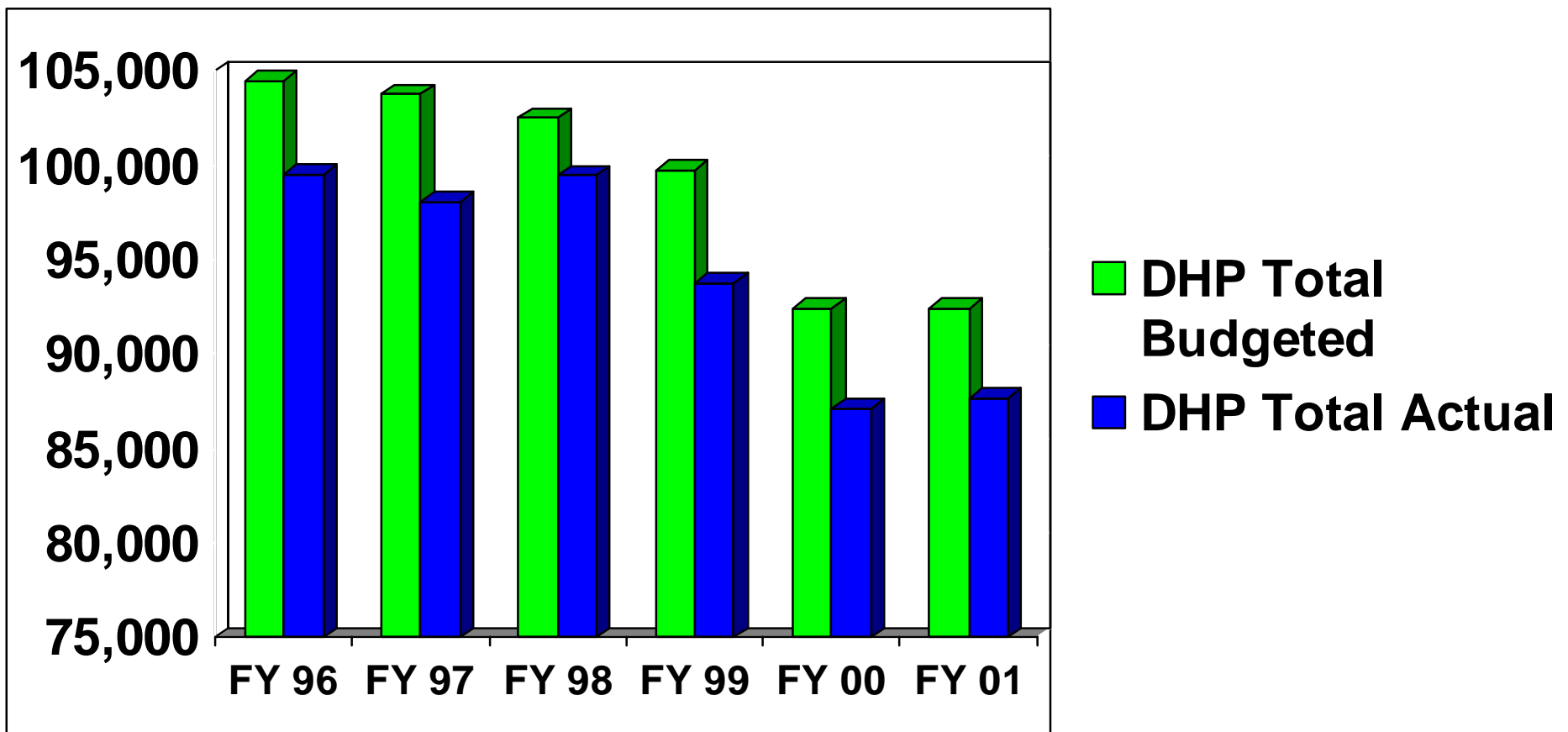


Future Initiatives/Focus

Military Personnel Account Reimbursed by DHP?



DHP Total Budgeted vs Estimated MilPers Endstrength





Budgeted vs Estimated Executed MilPers Dollars (in millions)



		<u>Army</u>	<u>Navy</u>	<u>Air Force</u>	<u>DHP Total</u>
FY 99	Budgeted	\$1,754	\$1,661	\$2,235	\$5,649
	Actual	<u>\$1,713</u>	<u>\$1,559</u>	<u>\$2,164</u>	<u>\$5,436</u>
		(\$40)	(\$102)	(\$71)	(\$213)
FY 00	Budgeted	\$1,566	\$1,754	\$2,027	\$5,347
	Actual	<u>\$1,562</u>	<u>\$1,573</u>	<u>\$1,901</u>	<u>\$5,035</u>
		(\$5)	(\$181)	(\$126)	(\$312)
FY 01	Budgeted	\$1,601	\$1,734	\$1,975	\$5,310
	Actual	<u>\$1,525</u>	<u>\$1,680</u>	<u>\$1,931</u>	<u>\$5,136</u>
		(\$76)	(\$54)	(\$44)	(\$174)



Future Initiatives

Invigorated VA - DOD Collaboration

- Presidential Task Force
- Health Care Providers
- Consolidated Mail Order Pharmacy Pilot
- Systems Development (Computer-based Patient Record)



Future Initiatives

CMS - DOD Collaboration

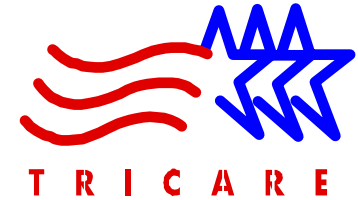
- Benefits
- Data Sharing



Future Initiatives TMOP --TNEX



- TMOP contract awarded to Express Scripts
 - ◆ Five-year period and is valued at approximately \$275 million over the five years
 - ◆ Worldwide, full-service mail order pharmacy program to all TRICARE-eligible beneficiaries.
 - ◆ Started on March 1, 2003
- TNEX contract awarded Aug 03



Future Initiatives

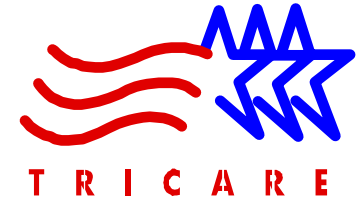
PSC - Contract Price Assumptions

- Program Decision Memorandum (Dec 01) Directed a Study to Determine Appropriate Inflation Factors for Managed Care Support Contract
- Elements...Inflation, Quantity & Quality
- TNEX Implications



Future Initiatives

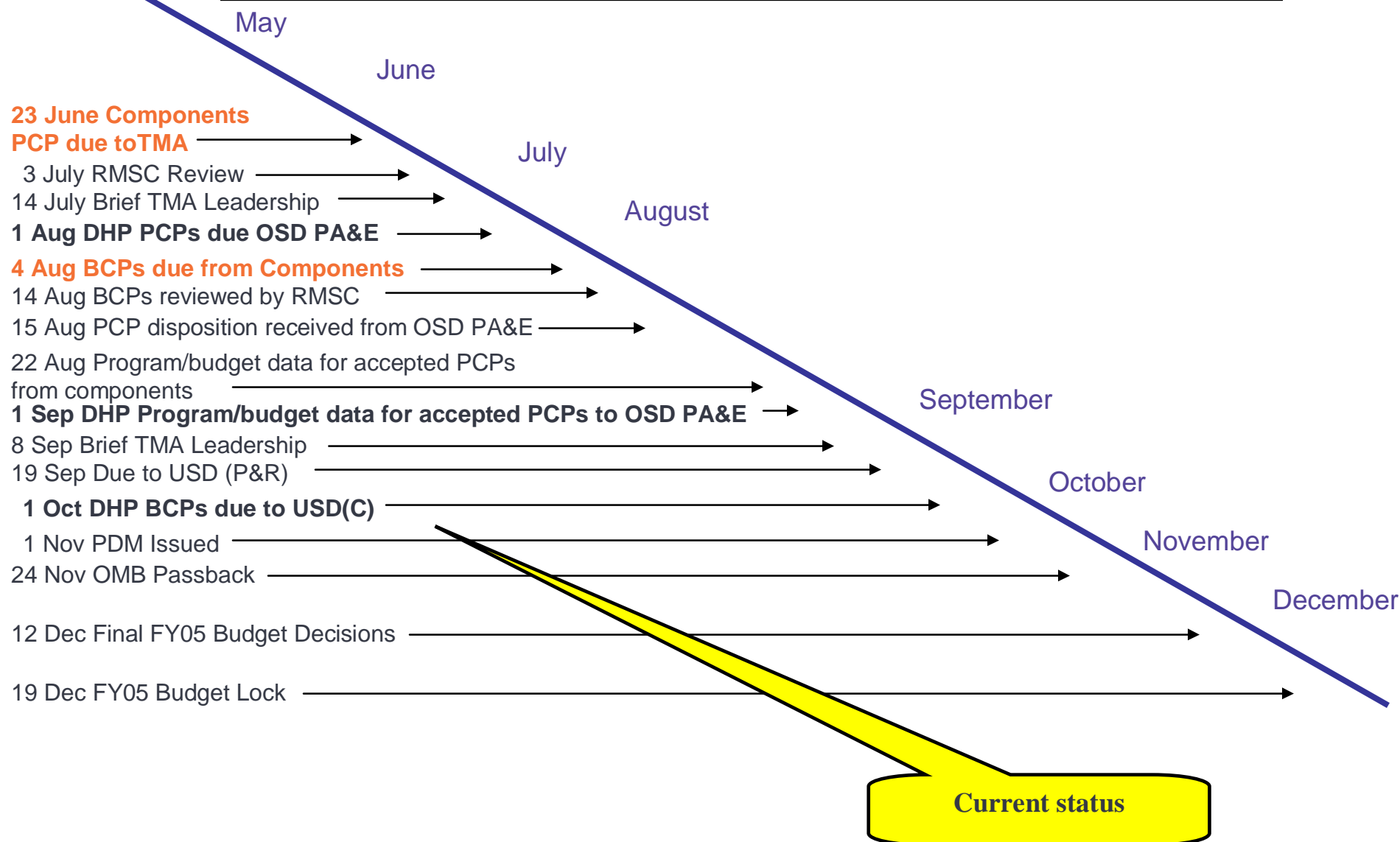
DOD Financial Management Modernization



- Systems Enterprise Architecture
- Reorganize Business Processes...Industry Best Practices
- Meaningful Department Metrics, Benchmarked with Industry
- Pursue demonstration project for a Tri-service accounting system

FY05 Calendar of Events Program, Budget and Exec. Review

Updated 04 Sept 03





Summary



- FY 04 Budget signed by the President
- Many Initiatives Being Explored/Implemented
 - ◆ Reduce Cost
 - ◆ Improve Business Practices
- GWOT funding
 - ◆ Pursue GWOT funding to sustain FY 03 objectives and continue to justify the GWOT funding requirement
 - ◆ Document all GWOT expenses on accounting reports to support future requirements



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Questions?

